

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

May 22, 2006

Ms. Sybil B. Neaves, Director of Reimbursement
UHS-Pruitt Corporation
Post Office Box 1210
Toccoa, Georgia 30577

Re: AC# 3-DHC-E3 – Dillon Healthcare, Inc.

Dear Ms. Neaves:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period December 1, 2002 through May 31, 2003. That report was used to set the rate covering the contract periods beginning December 1, 2002.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

DILLON HEALTHCARE, INC.

DILLON, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 2002
AC# 3-DHC-E3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 22, 2005

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Dillon Healthcare, Inc., for the contract periods beginning December 1, 2002, and for the six month cost report period ended May 31, 2003, as set forth in the accompanying schedules. The management of Dillon Healthcare, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

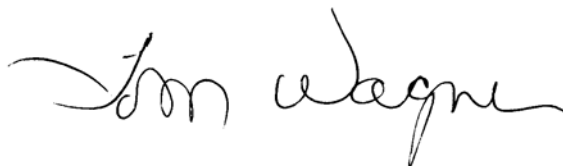
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Dillon Healthcare, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summaries of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Dillon Healthcare, Inc. dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
August 22, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Tom Wagner", with a stylized flourish at the end.

Thomas L. Wagner, Jr., CPA
State Auditor

DILLON HEALTHCARE, INC.
Computation of Rate Change
For the Contract Periods
Beginning December 1, 2002
AC# 3-DHC-E3

	<u>12/01/02-</u> <u>12/31/02</u>	<u>01/01/03-</u> <u>05/31/03</u>	<u>06/01/03-</u> <u>09/30/03</u>	<u>10/01/03-</u> <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$112.73	\$116.30	\$120.33	\$121.93
Adjusted Reimbursement Rate	<u>112.12</u>	<u>115.12</u>	<u>119.11</u>	<u>120.84</u>
Decrease in Reimbursement Rate	\$ <u>.61</u>	\$ <u>1.18</u>	\$ <u>1.22</u>	\$ <u>1.09</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

DILLON HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period December 1, 2002 Through December 31, 2002
AC# 3-DHC-E3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 56.69	\$58.68	
Dietary		13.33	11.36	
Laundry/Housekeeping/Maintenance		<u>10.79</u>	<u>9.21</u>	
Subtotal	\$ <u>-</u>	80.81	79.25	\$ 79.25
Administration & Medical Records	\$ <u>-</u>	<u>15.13</u>	<u>12.38</u>	<u>12.38</u>
Subtotal		95.94	<u>\$91.63</u>	91.63
<u>Costs Not Subject to Standards:</u>				
Utilities		2.61		2.61
Special Services		-		-
Medical Supplies & Oxygen		4.13		4.13
Taxes and Insurance		7.46		7.46
Legal Fees		<u>.17</u>		<u>.17</u>
TOTAL		<u>\$110.31</u>		106.00
Inflation Factor (N/A)				-
Cost of Capital				6.79
Cost of Capital Limitation				(1.23)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Nurse Aide Staffing Add-On 10/01/00				<u>.56</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$112.12</u>

DILLON HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period January 1, 2003 Through May 31, 2003
AC# 3-DHC-E3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 56.69	\$63.44	
Dietary		13.33	11.63	
Laundry/Housekeeping/Maintenance		<u>10.79</u>	<u>10.22</u>	
Subtotal	\$ <u>4.48</u>	80.81	85.29	\$ 80.81
Administration & Medical Records	\$ <u>-</u>	<u>15.13</u>	<u>12.63</u>	<u>12.63</u>
Subtotal		95.94	<u>\$97.92</u>	93.44
<u>Costs Not Subject to Standards:</u>				
Utilities		2.61		2.61
Special Services		-		-
Medical Supplies & Oxygen		4.13		4.13
Taxes and Insurance		7.46		7.46
Legal Fees		<u>.17</u>		<u>.17</u>
TOTAL		<u>\$110.31</u>		107.81
Inflation Factor (N/A)				-
Cost of Capital				6.96
Cost of Capital Limitation				(1.40)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.48
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(2.73)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$115.12</u>

DILLON HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period June 1, 2003 Through September 30, 2003
AC# 3-DHC-E3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 56.69	\$63.44	
Dietary		13.33	11.63	
Laundry/Housekeeping/Maintenance		<u>10.79</u>	<u>10.22</u>	
Subtotal	\$ <u>4.48</u>	80.81	85.29	\$ 80.81
Administration & Medical Records	\$ <u>-</u>	<u>15.13</u>	<u>12.63</u>	<u>12.63</u>
Subtotal		95.94	<u>\$97.92</u>	93.44
<u>Costs Not Subject to Standards:</u>				
Utilities		2.61		2.61
Special Services		-		-
Medical Supplies & Oxygen		4.13		4.13
Taxes and Insurance		7.46		7.46
Legal Fees		<u>.17</u>		<u>.17</u>
TOTAL		<u>\$110.31</u>		107.81
Inflation Factor (3.70%)				3.99
Cost of Capital				6.96
Cost of Capital Limitation				(1.40)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.48
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(2.73)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$119.11</u>

DILLON HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-DHC-E3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 56.69	\$ 67.92	
Dietary		13.33	11.76	
Laundry/Housekeeping/Maintenance		<u>10.79</u>	<u>10.49</u>	
Subtotal	<u>\$6.31</u>	80.81	90.17	\$ 80.81
Administration & Medical Records	<u>\$ -</u>	<u>15.13</u>	<u>13.25</u>	<u>13.25</u>
Subtotal		95.94	<u>\$103.42</u>	94.06
<u>Costs Not Subject to Standards:</u>				
Utilities		2.61		2.61
Special Services		-		-
Medical Supplies & Oxygen		4.13		4.13
Taxes and Insurance		7.46		7.46
Legal Fees		<u>.17</u>		<u>.17</u>
TOTAL		<u>\$110.31</u>		108.43
Inflation Factor (4.70%)				5.10
Cost of Capital				7.03
Cost of Capital Limitation				(1.47)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.31
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.56)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$120.84</u>

DILLON HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended May 31, 2003
For the Contract Period December 1, 2002 Through December 31, 2002
AC# 3-DHC-E3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$853,786	\$18,279 (3)	\$ 432 (2) 480 (2) 1,988 (4) 18,444 (7) 1,463 (7)	\$849,258
Dietary	200,430	6,908 (3)	813 (2) 2,017 (4) 4,806 (7)	199,702
Laundry	31,264	-	456 (2) 591 (7)	30,217
Housekeeping	87,532	-	31 (2) 2,477 (7)	85,024
Maintenance	44,076	2,468 (4) 157 (7)	315 (2)	46,386
Administration & Medical Records	215,559	12,274 (4)	424 (2) 570 (7) 121 (7)	226,718
Utilities	38,974	92 (4)	-	39,066
Special Services	1,265	2,116 (3)	35 (2) 403 (4) 2,941 (5)	2
Medical Supplies & Oxygen	68,126	-	4,316 (2) 1,996 (5)	61,814
Taxes and Insurance	113,826	227 (4)	2,309 (6)	111,744

DILLON HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended May 31, 2003
For the Contract Period December 1, 2002 Through December 31, 2002
AC# 3-DHC-E3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Legal Fees	2,181	393 (4)	-	2,574
Cost of Capital	102,459	166 (1) <u>350 (4)</u>	1,192 (8)	101,783
Subtotal	1,759,478	43,430	48,620	1,754,288
Ancillary	59,214	4,640 (5)	11,847 (2)	52,007
Nonallowable	270,573	19,149 (2) 297 (5) 2,309 (6) 28,315 (7) <u>1,192 (8)</u>	166 (1) 27,303 (3) 11,396 (4)	282,970
Total Operating Expenses	<u>\$2,089,265</u>	<u>\$99,332</u>	<u>\$99,332</u>	<u>\$2,089,265</u>
Total Patient Days	<u>14,982</u>	<u>-</u>	<u>-</u>	<u>14,982</u>
Total Beds	<u>84</u>			

DILLON HEALTHCARE, INC.

Summary of Costs and Total Patient Days

For the Cost Report Period Ended May 31, 2003

For the Contract Periods January 1, 2003 Through September 30, 2003

AC# 3-DHC-E3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$853,786	\$18,279 (3)	\$ 432 (2) 480 (2) 1,988 (4) 18,444 (7) 1,463 (7)	\$849,258
Dietary	200,430	6,908 (3)	813 (2) 2,017 (4) 4,806 (7)	199,702
Laundry	31,264	-	456 (2) 591 (7)	30,217
Housekeeping	87,532	-	31 (2) 2,477 (7)	85,024
Maintenance	44,076	2,468 (4) 157 (7)	315 (2)	46,386
Administration & Medical Records	215,559	12,274 (4)	424 (2) 570 (7) 121 (7)	226,718
Utilities	38,974	92 (4)	-	39,066
Special Services	1,265	2,116 (3)	35 (2) 403 (4) 2,941 (5)	2
Medical Supplies & Oxygen	68,126	-	4,316 (2) 1,996 (5)	61,814
Taxes and Insurance	113,826	227 (4)	2,309 (6)	111,744

DILLON HEALTHCARE, INC.

Summary of Costs and Total Patient Days

For the Cost Report Period Ended May 31, 2003

For the Contract Periods January 1, 2003 Through September 30, 2003

AC# 3-DHC-E3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Legal Fees	2,181	393 (4)	-	2,574
Cost of Capital	83,300	166 (1) 350 (4) <u>20,420 (9)</u>	-	104,236
Subtotal	1,740,319	63,850	47,428	1,756,741
Ancillary	59,214	4,640 (5)	11,847 (2)	52,007
Nonallowable	289,732	19,149 (2) 297 (5) 2,309 (6) <u>28,315 (7)</u>	166 (1) 27,303 (3) 11,396 (4) <u>20,420 (9)</u>	280,517
Total Operating Expenses	<u>\$2,089,265</u>	<u>\$118,560</u>	<u>\$118,560</u>	<u>\$2,089,265</u>
Total Patient Days	<u>14,982</u>	<u>-</u>	<u>-</u>	<u>14,982</u>
Total Beds	<u>84</u>			

DILLON HEALTHCARE, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended May 31, 2003
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-DHC-E3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$853,786	\$18,279 (3)	\$ 432 (2) 480 (2) 1,988 (4) 18,444 (7) 1,463 (7)	\$849,258
Dietary	200,430	6,908 (3)	813 (2) 2,017 (4) 4,806 (7)	199,702
Laundry	31,264	-	456 (2) 591 (7)	30,217
Housekeeping	87,532	-	31 (2) 2,477 (7)	85,024
Maintenance	44,076	2,468 (4) 157 (7)	315 (2)	46,386
Administration & Medical Records	215,559	12,274 (4)	424 (2) 570 (7) 121 (7)	226,718
Utilities	38,974	92 (4)	-	39,066
Special Services	1,265	2,116 (3)	35 (2) 403 (4) 2,941 (5)	2
Medical Supplies & Oxygen	68,126	-	4,316 (2) 1,996 (5)	61,814
Taxes and Insurance	113,826	227 (4)	2,309 (6)	111,744

DILLON HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended May 31, 2003
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-DHC-E3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Legal Fees	2,181	393 (4)	-	2,574
Cost of Capital	83,300	166 (1) 350 (4) <u>21,435 (10)</u>	-	105,251
Subtotal	1,740,319	64,865	47,428	1,757,756
Ancillary	59,214	4,640 (5)	11,847 (2)	52,007
Nonallowable	289,732	19,149 (2) 297 (5) 2,309 (6) <u>28,315 (7)</u>	166 (1) 27,303 (3) 11,396 (4) <u>21,435 (10)</u>	279,502
Total Operating Expenses	<u>\$2,089,265</u>	<u>\$119,575</u>	<u>\$119,575</u>	<u>\$2,089,265</u>
Total Patient Days	<u>14,982</u>	<u>-</u>	<u>-</u>	<u>14,982</u>
Total Beds	<u>84</u>			

DILLON HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended May 31, 2003
AC# 3-DHC-E3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$36,368	
	Cost of Capital	166	
	Fixed Assets		\$35,188
	Other Equity		1,180
	Nonallowable		166
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	19,149	
	Nursing		432
	Restorative		480
	Dietary		813
	Laundry		456
	Housekeeping		31
	Maintenance		315
	Administration		424
	Medical Supplies & Oxygen		4,316
	Therapy		35
	Ancillary		11,847
	To adjust related party United Pharmacy expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nursing	18,279	
	Dietary	6,908	
	Therapy	2,116	
	Nonallowable		27,303
	To adjust related party United Clinical expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

DILLON HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended May 31, 2003
AC# 3-DHC-E3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Maintenance	2,468	
	Administration	12,274	
	Legal	393	
	Utilities	92	
	Taxes, Licenses & Insurance	227	
	Cost of Capital	350	
	Nursing		1,988
	Dietary		2,017
	Therapy		403
	Nonallowable		11,396
	To adjust home office costs		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
5	Ancillary	4,640	
	Nonallowable	297	
	Medical Supplies & Oxygen		1,996
	Therapy		2,941
	To remove special (ancillary) services		
	reimbursed by Medicare and properly		
	classify diabetic testing supplies and		
	legend drugs		
	State Plan, Attachment 4.19D		
	DH&HS Crosswalk		
6	Nonallowable	2,309	
	Taxes, Licenses & Insurance		2,309
	To adjust liability insurance		
	HIM-15-1, Section 2304		
7	Nonallowable	28,315	
	Maintenance	157	
	Nursing		18,444
	Restorative		1,463
	Dietary		4,806
	Laundry		591
	Housekeeping		2,477
	Administration		570
	Medical Records		121
	To adjust fringe benefits and related		
	allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

DILLON HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended May 31, 2003
AC# 3-DHC-E3

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
8	Nonallowable Cost of Capital	1,192	1,192
	To adjust capital return State Plan, Attachment 4.19D (For the 12/1/02 - 12/31/02 rate period only)		
9	Cost of Capital Nonallowable	20,420	20,420
	To adjust capital return State Plan, Attachment 4.19D (For the 1/1/03 - 9/30/03 rate periods only)		
10	Cost of Capital Nonallowable	21,435	21,435
	To adjust capital return State Plan, Attachment 4.19D (For the 10/1/03 - 9/30/04 rate period only)		
11	<u>Memo Adjustment:</u> To correct the cost report period to reflect December 1, 2002 through May 31, 2003		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>177,555</u>	\$ <u>177,555</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

DILLON HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended May 31, 2003

For the Contract Period December 1, 2002 Through December 31, 2002

AC# 3-DHC-E3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3848</u>
Deemed Asset Value (Per Bed)	37,246
Number of Beds	<u>84</u>
Deemed Asset Value	3,128,664
Improvements Since 1981	592,871
Accumulated Depreciation at 5/31/03	<u>(978,318)</u>
Deemed Depreciated Value	2,743,217
Market Rate of Return	<u>.058</u>
Total Annual Return	159,107
Number of Days in Period	<u>182/365</u>
Adjusted Annual Return	79,336
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	79,336
Depreciation Expense	22,582
Amortization Expense	-
Capital Related Income Offsets	(135)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	101,783
Total Patient Days (Actual Occupancy)	<u>14,982</u>
Cost of Capital Per Diem	\$ <u>6.79</u>

DILLON HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended May 31, 2003

For the Contract Period December 1, 2002 Through December 31, 2002

AC# 3-DHC-E3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$5.56</u>
Reimbursable Cost of Capital Per Diem	\$5.56
Cost of Capital Per Diem	<u>6.79</u>
Cost of Capital Per Diem Limitation	<u>\$(1.23)</u>

DILLON HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended May 31, 2003

For the Contract Periods January 1, 2003 Through September 30, 2003

AC# 3-DHC-E3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>84</u>
Deemed Asset Value	3,228,204
Improvements Since 1981	592,871
Accumulated Depreciation at 5/31/03	<u>(978,318)</u>
Deemed Depreciated Value	2,842,757
Market Rate of Return	<u>.0577</u>
Total Annual Return	164,027
Number of Days in Period	<u>182/365</u>
Adjusted Annual Return	81,789
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	81,789
Depreciation Expense	22,582
Amortization Expense	-
Capital Related Income Offsets	(135)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	104,236
Total Patient Days (Actual Occupancy)	<u>14,982</u>
Cost of Capital Per Diem	\$ <u>6.96</u>

DILLON HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended May 31, 2003

For the Contract Periods January 1, 2003 Through September 30, 2003

AC# 3-DHC-E3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 1.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$ 5.56</u>
Reimbursable Cost of Capital Per Diem	\$ 5.56
Cost of Capital Per Diem	<u>6.96</u>
Cost of Capital Per Diem Limitation	<u>\$(1.40)</u>

DILLON HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended May 31, 2003

For the Contract Period October 1, 2003 Through September 30, 2004

AC# 3-DHC-E3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>84</u>
Deemed Asset Value	3,345,552
Improvements Since 1981	592,871
Accumulated Depreciation at 5/31/03	<u>(978,318)</u>
Deemed Depreciated Value	2,960,105
Market Rate of Return	<u>.0561</u>
Total Annual Return	166,062
Number of Days in Period	<u>182/365</u>
Adjusted Annual Return	82,804
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	82,804
Depreciation Expense	22,582
Amortization Expense	-
Capital Related Income Offsets	(135)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	105,251
Total Patient Days (Actual Occupancy)	<u>14,982</u>
Cost of Capital Per Diem	\$ <u>7.03</u>

DILLON HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended May 31, 2003

For the Contract Period October 1, 2003 Through September 30, 2004

AC# 3-DHC-E3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 1.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.56</u>
Reimbursable Cost of Capital Per Diem	\$ 5.56
Cost of Capital Per Diem	<u>7.03</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.47)</u>

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